

**RULES
OF
TENNESSEE STATE OIL AND GAS BOARD
STATEWIDE ORDER NO. 2
UNITIZATION**

**CHAPTER 1040-5-1
UNIT OPERATIONS**

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1040-5-1-.01 UNIT OPERATIONS

- (1) Unit operations shall be ordered only after notice and hearing and shall be based on findings that:
 - (a) The order is reasonably necessary to conserve the natural resources of the State; will prevent waste of oil and gas, and the drilling of an unnecessary well or wells; will appreciably increase the ultimate recovery of oil and gas from the affected pool; is economically feasible; and will protect correlative rights of both landowners and owners of mineral rights.
 - (b) The order will provide for the allocation to each separate tract within the unit a proportionate share of the unit production, thereby insuring the recovery by the owners of that tract their just and equitable share of recoverable oil or gas in the unit.
 - (c) The order will provide the designation of a unit operator, but only with the consent of the designated person, and approve the terms and plans of the unit operating agreement in the absence of a voluntary agreement among the owners.
 - (d) The order shall make provision for the proportionate allocation of cost to the producers, which allocation shall be in the same proportion that the separately owned tracts share in unit production. The cost of capital investment in wells and physical equipment and intangible drilling cost shall be shared in like proportion, provided that no such producer or owner who has not consented to the unitization shall be required to contribute to the cost or expenses of the unit operation, or to the cost of capital investment in wells and physical equipment and intangible drilling cost, except out of proceeds of production accruing to the interest of such owners out of production from such unit operation. However, no well costs credit allowable shall be adjusted on the basis of less than the average well costs within the unitized area. If any producer or owner fails to tender his just and reasonable share of cost, the Board may provide that the operator shall withhold and be reimbursed for the non-participant's share of cost of the proceeds to the extent of three hundred fifty percent (350%) of the amount advanced.
 - (e) It is provided, however, that the order requiring unit operation shall not vary nor alter any of the terms of the required written contract or contracts evidencing approval nor impose any terms or operations upon the nonsigners of said contract or contracts more onerous than the terms and operations set out in said contract or contracts.
 - (f) The order will provide for the forced integration of separately owned tracts and other property ownership into drilling, production, or pool units. Continuous operations incident to the drilling of a well upon any portion of a unit shall be deemed, for all purposes, the conduct of such operations upon each separately owned tract in the unit. That portion of the production allocated to each separately owned tract included in a unit shall, when produced, be deemed for all purposes to have been actually produced from such tract by a well drilled thereon.

(Rule 1040-5-1-.01, continued)

Authority: T.C.A. §§60-1-202. **Administrative History:** Original rule was certified May 24, 1974. Amendment filed June 29, 1982; effective August 13, 1982.

1040-5-1-.02 DRILLING AND PRODUCTION UNITS

- (1) Any owner with interest in a tract of land offsetting production and who cannot comply with the spacing rules for drilling a well on said tract may make application for a hearing before the Oil and Gas Board for the purpose of having the tract, or a portion thereof, included in a production unit.
- (2) Drilling and production unit wells shall comply with the rules on spacing between wells and distance from property lines as prescribed in Chapter 1040-2-1 through 1040-2-12.
- (3) The shape and pattern of production and drilling units should be designed to permit the attendant unit well to economically, efficiently and equitably drain the unit's pro-rata share of the pool's oil and/or gas, and shall be based on available geologic and engineering parameters. Length of any drilling unit shall not exceed twice it's width.

Authority: T.C.A. §§60-1-202. **Administrative History:** Original rule was certified May 24, 1974

1040-5-1-.03 POOLWIDE UNITS

- (1) Poolwide units may be formed on a volumetric or surface area basis provided that sufficient data are available to determine the geometry and to define the physical characteristics of the reservoir.
- (2) Drilling, production, or poolwide units can only be revised by the Oil and Gas Board if new pertinent geological or engineering evidence becomes available which was not in existence at the time a unit was formed.

Authority: T.C.A. §§60-1-202. **Administrative History:** Original rule was certified May 24, 1974